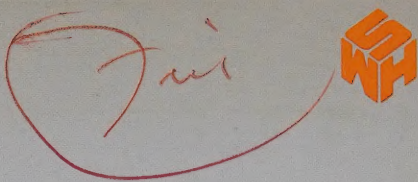


W.H.Smith & Son (Holdings) Limited
29th Annual Report and Accounts
28 January 1978



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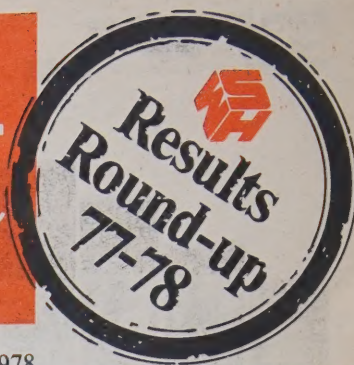
4 MAY 1978

W.H.Smith & Son (Holdings) Limited
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AR22

Special Report



Distributed to the staff of W.H.Smith

May 1978

How the news is spread

IN the first words of the Chairman's Statement in the Annual Report and Accounts, Mr P. W. Bennett says: 'There is continuing debate on how a company can best communicate to an expanding audience with different points of view, but a common interest in success.'

Two ways in which our results are communicated are the Annual Report and Accounts and this *Special Report*.

The Annual Report is an account of stewardship to shareholders, but also of interest to the financial community and prospective investors as well as to segments of the public at large.

In this *Special Report*, the staff have their own interpretation of the results. It goes to every member of the WHS staff, and shareholders also get a copy.

The Annual Report and Accounts is sent to every branch and wholesale house. If you would like your own copy, please write to the Company Secretary, Strand House.

These publications take a broad view of the WHS trading year, on a national and international scale. But what about the local level—your branch, your wholesale house?

In the next few days, briefing sessions will be held with all staff, to discuss and explain the figures—and they will include individual shop and wholesale house performances.

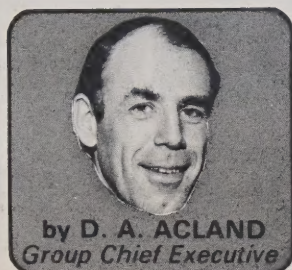
•Chairman's Statement—Centre Pages

•What the Papers Said—Centre Pages

•Retail Group—Page 4

•Wholesale Group—Page 4

A SOLID YEAR OF



by D. A. ACLAND
Group Chief Executive

WE can be proud of the results of our work in 1977/78. It was a year of solid progress.

Group profits before tax were £20.2m compared with £15.6m in the previous year. Both sales and profits outpaced inflation, reflecting our own individual efforts as well as the huge investment in expansion over the last few years, including £9m in the year under review.

Profits, of course, are the surplus remaining after all expenses are paid. Most of our expenses are fixed when the year starts, so we are very dependent on meeting our sales targets. Our results will be good if we beat them, but not if we fail.

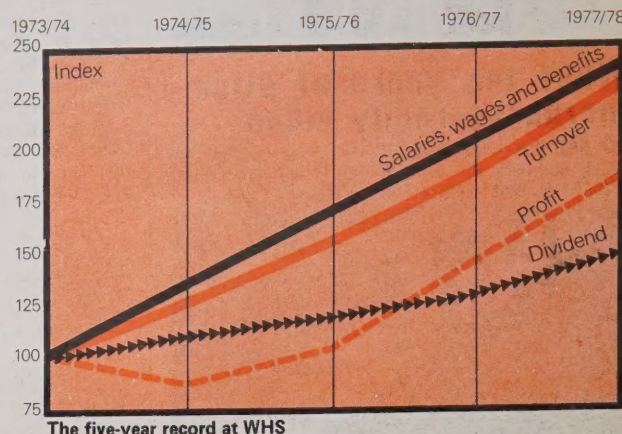
Remember, too, that the economy can change quickly, so profits are liable to fluctuate. In our accounts we always show a five-year record as this is a better yardstick than the figures for a single year only.

Over the last five years our sales have risen from £167.4m to £393.8m, an increase of 136 per cent.

Profits before tax have risen from £10.8m to £20.2m, an increase of 87 per cent.

Dividends have risen from £1.3m to £1.9m, an increase of 46 per cent.

PROGRESS



The five-year record at WHS

Staff wages and benefits (which include pension and National Insurance contributions) have risen from £20.3m to £48.3m, an increase of 138 per cent (see chart above).

Part of this growth is the result of inflation and is not a real improvement. Another part is due to the proportion of each year's profit that is ploughed back into expansion, like opening new shops or improving existing operations.

This provides a springboard for the future and over the years has allowed us to create much-needed new jobs.

Increase

Some of the increase in wages and salaries has gone to these new members of the staff who would not otherwise be employed by the Firm. The balance is accounted for by pay rises earned by existing members, either on their basic rate or by promotion.

This record shows how a profitable and expanding company benefits all who have a stake in it.

The large jump in the WHS Group's tax charge to £8.2m in the year mainly arises because in 1976/77 we had been entitled to

substantial tax relief as a result of a big increase in our stocks.

In 1977/78 stocks were tightly controlled and so the relief is much smaller.

The figures in the Annual Report and Accounts are presented in a different way from previous years following the recommendations of a new Accounting Standard.

Both **RETAIL** and **WHOLESALE** Groups had a good year. Simon Hornby and Malcolm Field comment on them in detail on Page 4, so I will just express my appreciation to everyone who has contributed. It was a fine achievement in a year of ups and downs.

BOOK CLUB ASSOCIATES continued its rapid progress in 1977, a year of vigorous expansion.

Membership is now approaching the magic one million mark following a series of very successful advertising campaigns and the acquisition of the Purnell book clubs, whose four clubs are being developed within BCA.

The two main clubs—Literary Guild and World Books—continue to form the backbone of the business, but the smaller specialist clubs now make a useful contribution.

Sales growth, at 62 per cent, has

also been impressive and we now have a very substantial base from which to grow.

New clubs launched in 1977 were Home & Garden and British Heritage, and we also launched our first children's book club, Skylark.

BCA has also expanded its general merchandise sales through the Kaleidoscope catalogues and offers. High quality has brought very worthwhile results.

Everyone in BCA can be proud of their efforts and excited by future prospects.

Overseas, our fortunes were mixed.

W.H.SMITH CANADA suffered from that country's depressed economy in 1977, coinciding with a sizeable programme of new store development. We added 22,000 sq. ft. of new selling space, giving a year-end total of 130,000 sq. ft.

The company now has 50 retail outlets—41 book stores, seven Celebration and two Rumpus shops.

Dollar profits were similar to the previous year, which is disappointing in view of all the effort made, but we are confident that the Canadian economy will eventually recover and we are continuing with expansion plans.

Valiantly

In Holland, **SIMS & PARTNERS** had a difficult year. The Dutch economy remained sluggish with continuing high unemployment. The new Sims management team struggled valiantly, but substantial losses were made.

PARIS AND BRUSSELS SHOPS both showed useful improvements over the previous year and had a successful year's trading.

WHS ADVERTISING LTD. is now handling the advertising on 16,000 buses and in 50 airports in the United Kingdom, in addition to the advertising at Earl's Court and the new National Exhibition Centre.

In 1977/78 we completed the integration of Frank Mason & Co. whose business was acquired during the previous year. The organisation was strengthened with improved facilities in new offices and factory premises at Trafford Park, Manchester.

The overseas business of the Air Transport Advertising Division, which started the year with contracts for over 80 airports, was extended to include ten airports on the West Coast of Africa from

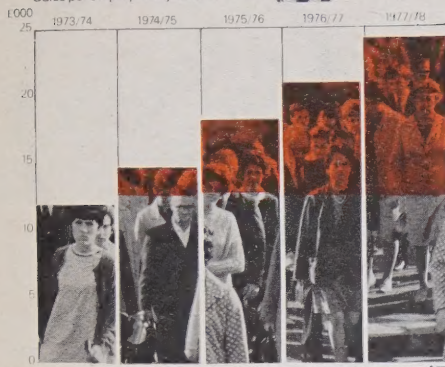
continued on Centre Pages

What we earned and how it was spent

	1977/78 £000	1976/77 £000
We received from Sales	393,786	324,063
We spent on Goods and Services	325,282	266,447
Leaving for Pay and Profits	68,504	57,616
This was used to pay:		
Salaries, wages and benefits	48,332	41,648
Tax	8,190	3,771
Dividends	1,882	1,679
	58,404	47,098
Leaving for New Investment	10,100	10,518

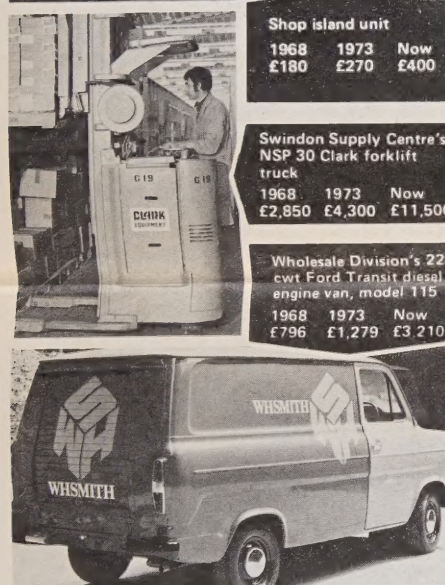
Sales per employee

Sales per employee
Sales per employee adjusted for inflation



What ten years of price increases really mean

TO SEE the impact of inflation over the last ten years, compare the costs to the Company of three commonly-used items in 1968, 1973 and 1978



Mr P. W. BENNETT
WHS Chairman

LOOKING back on a year in which inflation moderated and then started to decline, Mr P. W. Bennett writes in his Chairman's Statement in the Annual Report and Accounts: 'Surprisingly, there are those who seem to incline to the idea that there is something virtuous in a high single figure level.'

In the UK, the Chairman continues, for retailing as a whole, the year's sales volume was two per cent down compared with the previous year.

'Taking into account the general recession being experienced in all the countries in which we trade, our results can be regarded as very satisfactory, except for our joint venture in the Netherlands,' he reports.

'It is recognised that, like many retailers, our profit accrues unevenly during the year with a large propor-

STABILITY 'BOOM' &

tion flowing through in the last quarter.

'There are additional factors present in the current year, some financial, some trading, which are likely to accentuate this trend.'

Looking to the year ahead, Mr Bennett continues: 'It might be thought that the prediction of a consumer-led boom in 1978 in this



Mr G. W. Rowe

country would be a welcomed prospect for all connected with retailing. We view this idea with reservation.

'Most people's personal incomes have been under severe restraint in the face of fierce inflation and high rates of taxation. Inevitably this has led to a general decline in living standards.

'Families and individuals have a lot of fences to repair before they can contemplate a spending spree.

'Spending may well increase but if sales in terms of volume reach the level from which they have declined, this would represent a recovery but not a boom.

'Stability is a better state than the boom and bust cycles which have been engineered in the past by economic policy. So this mood of caution on the part of the public should be welcomed by everyone who has the long-term interests of the country and commerce in mind.'

Turning specifically to WHS, Mr Bennett says: 'The Company is

strong financially and of good reputation. In the past it has shown an ability to adapt to and profit from change. It will continue to do so.

'There is a continuing spirit of co-operation and understanding between all levels of management and staff over the whole field of communications, consultation and participation.

'Not that we are paragons but we continue to enhance a long tradition of concern for all.

'Observance of the simple dictum of doing unto others as you would have them do unto you, might well resolve matters more quickly and effectively than the thousands of seminars and how-to-do-it tracts on the subject.'

Mr Bennett announces that Mr G. W. Rowe and Mr H. N. Saunders, non-executive directors, will both retire after the Annual General Meeting on 25 May.

Mr Bennett says: 'Mr Rowe, whose father preceded him and

SOLID YEAR OF PROGRESS

(continued from Page 1)

Gambia to Camerouns and six in the Persian Gulf.

Substantial orders for advertising are already being received for these.

At the beginning of February 1978, ESTATE DEPARTMENT AND ARCHITECTS DEPARTMENT linked arms to form a new Property Division, uniting all those whose work spans the varied facets of property.

Architects Department had its usual heavy workload, managing building and shop-fitting work with a value of some £8m.

One of the highlights of the year was the completion of the new shop in York—a fine building which received well-deserved praise from local citizens and influential organisations concerned with conservation and architectural standards.

All departments of the FINANCE DIVISION had an extremely busy year.

Chief Accountant's Department had to deal with more complex tax legislation, wrestle with the problems of inflation accounting and provide detailed figures to the Monopolies and Mergers Commission and the Price Commission. More than £1m interest was earned on the Group's cash resources.

The increase in growth in the Retail Group has meant much more work for the Accounting Services Department.

In 1977/78 more than one million invoices from suppliers were processed and more than three million documents microfilmed. The Central Payroll Unit had to deal with four PAYE tax changes.

Computer

In Computer Operations—in addition to coping with the increase in retail volume and the considerable growth in Book Club membership—efforts were directed to the installation of the new ICL 2970 computer. The year ahead should see all the work for the Retail Group and BCA transferred to the new machine.

Systems' development work concentrated mainly on the new warehouse system, the new BCA system and the development of Newsnet, the new computer-linked communication system for the wholesale houses and regional accounting units.

STAFF & TRAINING DIVI-

SION had a full year. On the training side, 1,300 staff visited Milton Hill on no less than 33 different courses.

On the staff side, there was a heavy load of legislation to be dealt with and 12 new sets of laws had to be translated into Company policy.

Towards the end of the year planning began on a new job evaluation system which will be put into effect as soon as possible.

We have also participated in the Government Work Experience Scheme, offering employment to school-leavers who might otherwise be unable to find a job.

During the past nine months we have had 280 young people working with us for six months and we have taken about half of them on to full-time staff as a result.

In Strand House, the Communications and Staff Services Departments settled down well and are giving a valuable service.

So the seal is set on 1977/78 and once again we face the challenge of the future.

Balance sheet



What we own

Value in £000

Properties 44,101
Shops, wholesale houses, Head Office, Supply Centre

Fixtures, fittings, equipment etc. 12,534

Stocks 33,051
Goods awaiting sale in our shops, wholesale houses and Supply Centre.

Amounts owed by customers 18,699

These are mainly our wholesale customers.

Investments in jointly owned companies 641

The value of our interests in companies such as Sims etc.

Bank balances, deposits and cash 21,452

130,478



What we owe

Value in £000

Amounts owed to suppliers 41,965

These are mainly for merchandise supplied to our trading establishments and Supply Centre.

Amounts provided for taxation 8,161
Due in 1978/79 8,737
Less: payments in advance 576

Dividends due to shareholders 1,265

Loans 6,364

57,755

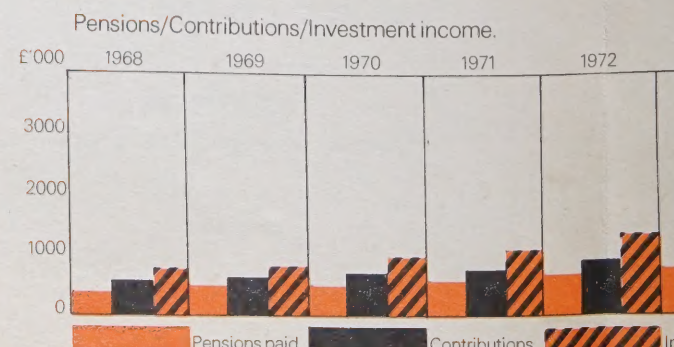
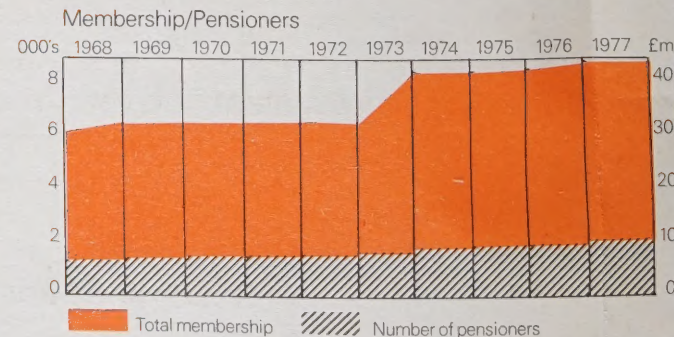
The difference between
+ what we own and
- what we owe is known as our

Net worth 72,723

130,478

WHS Pension Trust

At the end of March 1977 were receiving pensions



Y & BEATS & BUST'

cially and of good
the past it has shown
adapt to and profit from
will continue to do so.
a continuing spirit of
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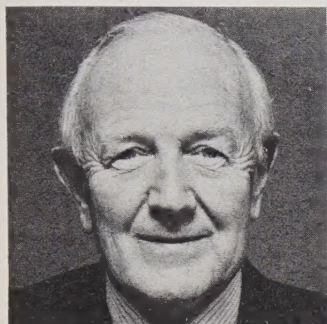
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o others as you would
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how-to-do-it tracts on

ct announces that Mr
and Mr H. N. Saunders,
e directors, will both
the Annual General
5 May.

tt says: 'Mr Rowe,
preceded him and

whose eldest son follows him in the
business, has served in many posi-
tions in the Firm over the past 50
years.

'He entered it in 1928 as a newsboy
in the bookstalls and was appointed
a Director in 1960. He has always
held the conviction that hard work
never harmed anyone and demon-
strated it throughout the whole of



Mr H. N. Saunders

his career along with great skill and
acumen.'

Of Mr Saunders he says: 'Mr
Saunders has served for 22 years as a
non-executive director and con-
tributed with sympathy and under-
standing to the evolution and
growth of the business during that
time.

'To them and to all members of
the staff who have retired during the
year, we give our very sincere thanks
and best wishes for happiness in the
years to come.

'To the men and women who
remain and who have manned this
business at home and abroad cheer-
fully, politely and effectively, the
Board of Directors give their un-
stinted praise and appreciation on
behalf of themselves and share-
holders.

'As Chairman, I have many to
thank. One is mindful of and thank-
ful for the goodwill and help evi-
denced everywhere, not least by your
directors.'

What the papers said

**WHAT the Press said about the
Company's Results when they
were announced on 5 April.**

... Given the grey background to
retail sales last year it has really
done very well.

Everything was going Smith's
way in 1977. Firstly, the Jubilee
celebrations and its accompaniment
of souvenirs and souvenir publica-
tions. Next, for the first time in
recent years, there was actually a
modest volume increase in sales of
newspapers, magazines and period-
icals despite a round of cover price
increases in the wake of rising raw
material costs.

Not least, Smith was getting the
full benefits for the first time of the
15 p.c. or so that had been added to
selling space over the past two years.

—Daily Telegraph.

Smith's 29 per cent profits rise is
a shade under outside estimates.
New stores, adding around 5 per

cent to selling space, accounted for
virtually all the volume growth in
retailing, but wholesaling saw an
increase in volume for the first time
in years.—Financial Times.

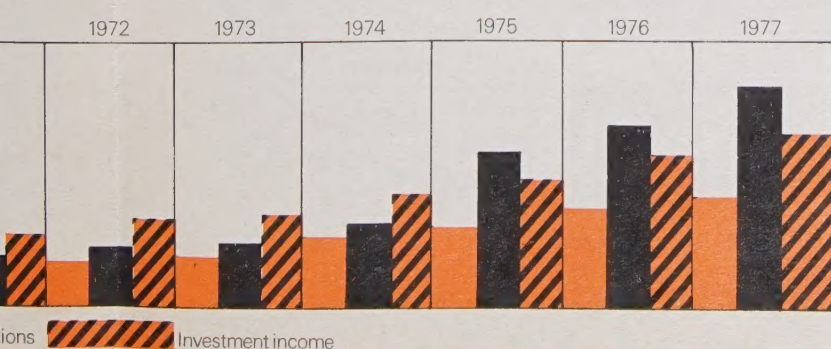
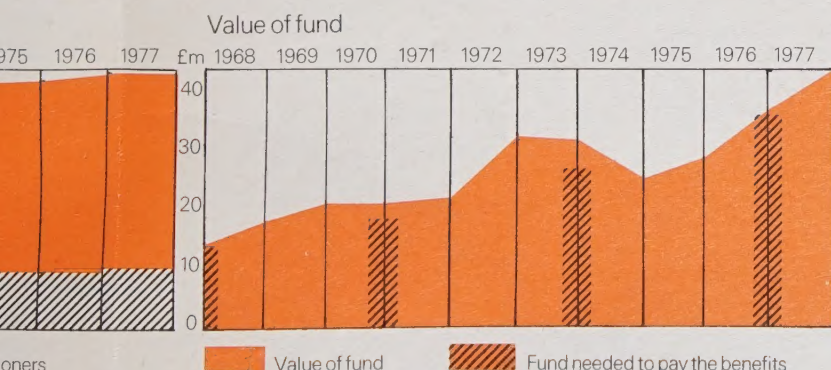
Its shares have outperformed the
market by nearly 50 per cent in the
past year, and yesterday W.H.
Smith justified this confidence with a
29.1 per cent increase in profits.
... Evidently the company has the
potential to substantially improve
its overall margins. This suggests
that Smith has an edge over many
retailers.—The Times.

**YES, A £20m RECORD FOR
W.H.SMITH**

Profits of W.H.Smith, the big
newsagent and stationer, have
soared to a new peak—thanks to
bumper Christmas trading.—Lon-
don Evening Standard.

**RECORD PROFITS CROWN
YEAR AT W.H.SMITH.—York-
shire Post.**

the end of March 1977 a total of 8,904 staff were members of the scheme and 2,062
receiving pensions.



Turnover



Retail sales



Wholesale sales

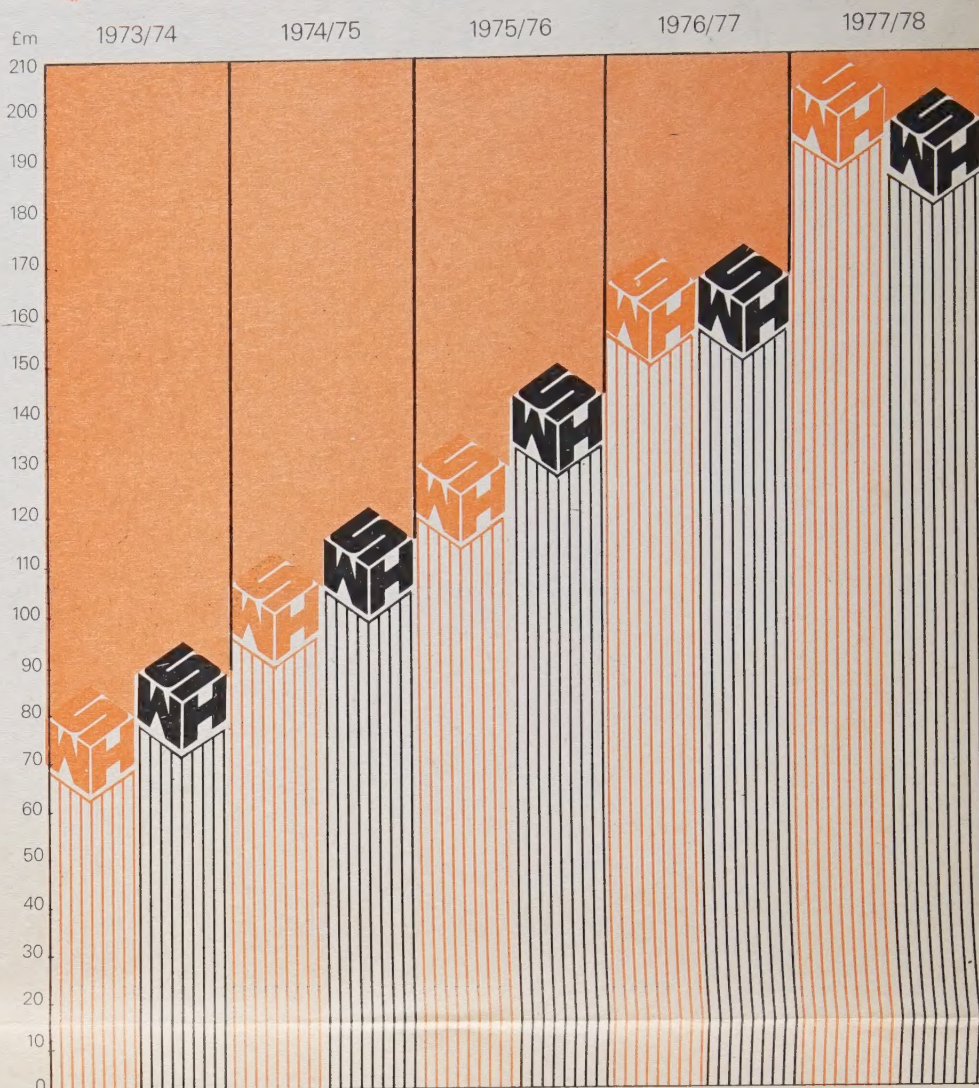


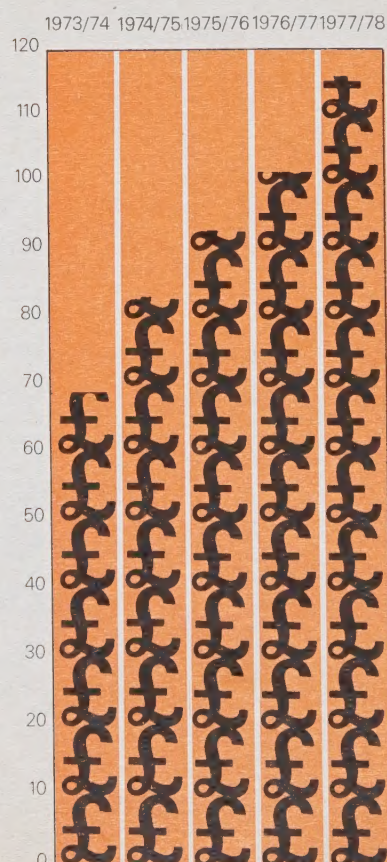
Chart above shows the neck-and-neck positions
as Retail and Wholesale sales increased over the
last five years, culminating in 1977/78 in £208.8 m
Retail turnover and £202.5 m Wholesale turnover.

Retail expansion and capital expenditure over
the next five years will be greater than
Wholesale. This is because Wholesale already
has a much higher share of its market.

Up, up go the Retail figures

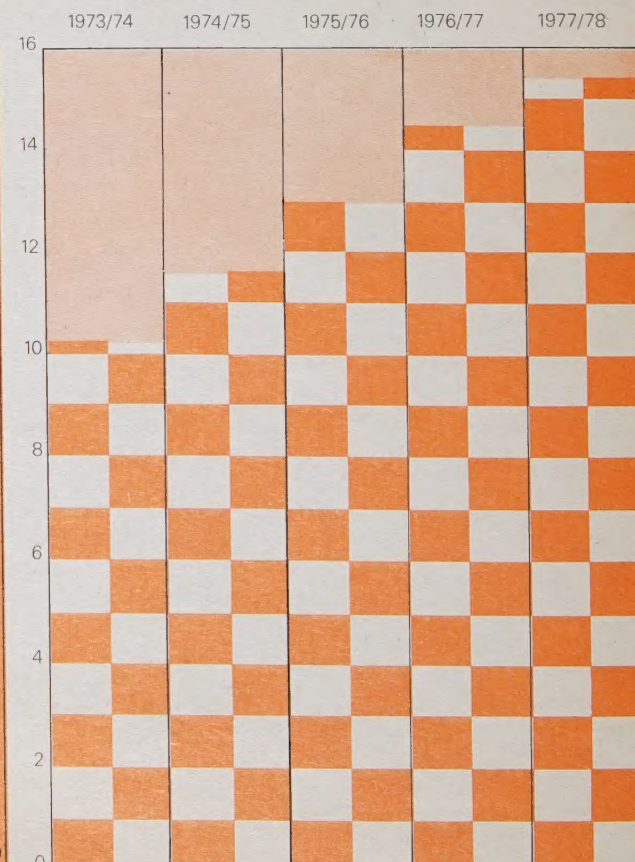
Sales per sq ft

One £ = £10



Retail shop selling area

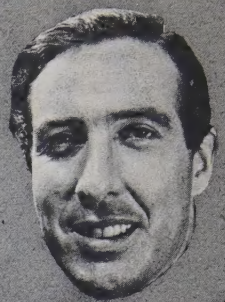
Scale in hundred thousand sq ft



Some disappointments along the way, but ...

ANOTHER GOOD YEAR IN RETAIL

by
**SIMON
HORNBY**
Managing
Director,
Retail



WE'VE had another good year, but although it's our aim, we can't expect all parts of the Retail Group to do equally well, so in this brief review of the year I shall point out the disappointments as well as the highlights.

We start with sales. In years of high inflation it is easy to be carried away by large figures which make results appear very good in terms of money.

So the sales results at £182m, which show an increase of 22.1 per cent over last year in W.H. Smith shops and bookstalls, look very good at first sight; closer examination shows no increase in the quantity of goods sold.

Sales highlights

Growth came from additional sales space (64,200 sq. ft. added in 1977) and the introduction of confectionery into shops. Confectionery sales have got off to a good start, and we can all see fast growth this year!

The highlights in sales last year were hardback books, boosted by some exceptionally fast-selling new books; the record department, which did very well when the trade generally was having a hard time; and pens, where our selection and competitive prices scored well.

In contrast we sold fewer paperbacks, and there is no doubt that 1977 was a bad year for the paperback trade. Many novels now cost over £1 and when money is tight the

paperback is no longer the pick-up that it once was.

Both stationery and toys showed slight drops in volume.

In the past we have been used to all new shops racing away with sales above budget. Now the going is harder and, although in no case is the potential of a shop in question, some new shops will be slower than forecast to reach their sales and profit targets.

The great achievement for the Retail Group last year was the control of stock. We ended the year with only 5.7 per cent more stock in the branches than we had a year earlier and we achieved a 22.1 per

cent increase in sales.

The improvement in stock management continues and I congratulate everyone concerned in this. We set ourselves a tough target and hit it. Return on capital employed is the true measure of performance; good stock management is essential to achieve the target.

Costs, of course, have risen but they have been well controlled within divisional budgets and the ratio of Retail Group costs to sales has marginally improved.

The marketing cost was £2.36m; for every £100 of sales we now spend £1.30 on sales promotion.

Out of this total, £1.4m was spent on advertising and we received a lot of favourable comment both for the Press advertisements throughout the year and for the Christmas campaign on television.

The Distribution Division gave excellent service to our branches and once again lowered the relative cost of getting goods to our shops.

A great deal of work has been done preparing for the second warehouse, which will open at Dunstable in 1979.

The British Rail bookstalls took advantage of their own marketing programme and several new or altered stalls to push their sales

above their budget.

At London Airport the increased number of tourists to Britain in Jubilee year gave a great boost to sales.

But it has been a dramatic year, for we had to tender for the concessions we held in Terminals Two and Three as well as for the gift concessions in all three terminals. We held what we had and gained the gift concessions in Terminals One and Two.

We have had to pay high rents and our profit, never very high, will be reduced this year.

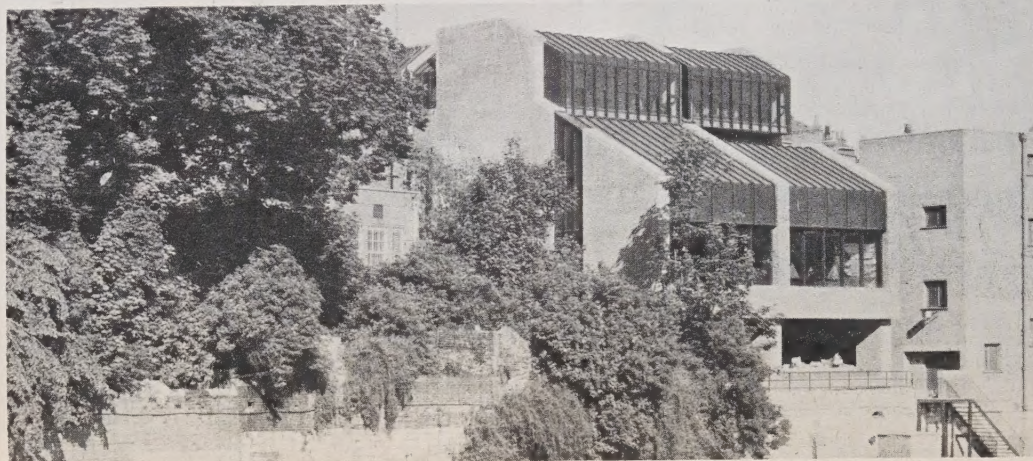
Bowes and Bowes improved its profit in spite of a major refit at its biggest shop—Sherratt & Hughes. There was a slight increase in sales volume and costs were well controlled. Two new city shops will open this autumn.

Encouraging

Craftsmith is still in the development stage, and although it will continue to make a loss for the next two years the indications are encouraging for its long-term profitability and growth.

In 1977 one new Craftsmith shop opened at Nottingham. In 1978 three open—Slough, Manchester and Birmingham.

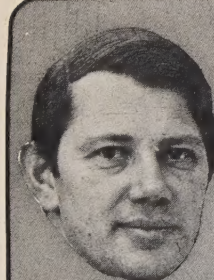
Our results are the achievement of everyone working in the Retail Group, and I pay tribute to the hard work, to the continuing pursuit of high standards, to the commitment to serving the customer and to helping each other, and to the sense of enjoyment in doing it all.



Modern architecture blending harmoniously with the traditional flavour of York. The picture shows the back of the newly-opened York shop on the banks of the River Ouse

Group sales produce an all-time record

WHOLESALE HITS THE £200m MARK



by
**MALCOLM
FIELD**
Managing
Director,
Wholesale

IN the Newlink Special a year ago I wrote that 'we look forward in 1977 to a year of further successful expansion'.

I am pleased to report that the main trading operations within the Wholesale Group, which are the Wholesale Division and WHS Distributors, both enjoyed a successful trading year, with sales increases better than budgeted figures and the annual inflation rate.

The Wholesale Division sales of £194m—consisting mainly of the wholesaling of newspapers, periodicals and magazines—showed an increase over the previous year of 18.5 per cent.

Within our news business the most refreshing feature of the 1977/78 trading year was the achievement of volume sales increases in all three categories.

In recent years we have seen consumer resistance to retail price increases, with resultant decline in circulations. Towards the end of 1977 there was a definite slowing-down in the rate of price increases, and daily newspaper sales in particular finished the year strongly.

For the second year running periodicals and magazines sales showed sizeable volume gains, with magazines particularly strong at around 4 per cent.

Another pleasing figure last year was the amount of new publishing. We added to our basic news range 496 new titles, mainly in the area of 'one shot' publications, where there were 278, and 74 new monthly publications. We consider this a most encouraging sign.

Successful magazine publishing arises from seizing market opportunities, and the Silver Jubilee provided excellent scope. Publishers responded marvellously and extra sales helped the early part of the year.

The most disturbing feature of 1977/78 was the continuing high loss of sales through industrial disputes in publishing houses. Our losses exceeded £2m, compared with the previous year's losses of £1.25m.

The early part of 1978 has started in a most depressing manner with the loss of sales rising to a high level through industrial action within the publishing and wholesaling sides of the trade.

Books up

Our Wholesale Division book business performed well in what was generally regarded as a difficult book year. It produced a sales increase of 22.3 per cent over the previous year, with hardback books in the latter part of the year particularly strong.

Books for Gifts continues to be Wholesale's major book promotion, and in 1977 sales through the catalogue totalled £1.2m, an increase of nearly 15 per cent.

It was particularly encouraging that there were 700 more trade customers who participated in the promotion and mounted special Books for Gifts displays.

With the re-organisation planned for this year, which embraces larger book depots and a sizeable increase in our book van-selling operation,

we are confident we can make book wholesaling a worthwhile contributor to Group profits.

An important and growing facility provided by the Wholesale Division is the advisory service for the refitting and modernisation of independent customers' shops.

In 1977 improvements to a record value of £700,000 were arranged under this scheme.

During the year we increased the support activity to our leading multiple customers by a series of seminars at our training college at Milton Hill, aimed at improving service levels and relationships and, more importantly, at producing a

more effective approach to the marketing of the dated and undated printed word.

Sales from WHS Distributors, the book marketing venture, were £9.2m last year, an increase over 1976/77 of £3.5m (62.3 per cent). The introduction of the Panini Stamps and Album range accounted for 23 per cent of this increase.

During the year WHS Distributors introduced the Bookmart catalogue, a 'remainder' book service to the retail trade, which was well received and in its first year achieved sales of £900,000.

WHS has carved for itself a significant place in the market and is

now established within the UK book trade. The future includes further expansion in the book market in the UK and the possible development of a WHSD-type operation into other product ranges.

The WHSD team is full of enthusiasm and determination to succeed. For last year's results they deserve the utmost praise.

During the year we continued with our plans for preparation for trading in the 1980s, and in January our plans were announced to managers within the Wholesale Group.

Acceptable

The plans will take us three years to complete. Their successful introduction will ensure that we grow at an acceptable profit rate in the 1980s.

During this period of change it will be essential for us to get full support for these changes from managers and staff, and during last year we improved considerably our consultative and participation procedures.

After a good trading year, for which we wish to thank all who played a part in achieving these excellent results, we enter 1978 determined to beat our budgets, but recognise that it is going to be a challenging trading year.

To all of us in the Wholesale Group our objective remains to:

**ADD VOLUME SALES
AND STOP MISSING
OPPORTUNITIES**



Members of the North West Regional Accounting Unit at work in their new offices, which were opened this year in Stockport

Chairman

Peter Ward Bennett, obe

Non-executive directors

Peter Baring*
William Grantham Lewis Forwood*
Viscount Hambleden

Sir Humphrey Povah Treverbian Prideaux, obe

Vice-Chairman

George William Rowe

Hugh Norman Saunders, obe, TD, JP*

Executive directors

David Alfred Acland* *Chief Executive*

Peter Hill Bagnall *Deputy Managing Director Retail*

Malcolm David Field *Managing Director Wholesale*

Simon Michael Hornby *Managing Director Retail*

William Brian Ian Jamieson, fca* *Finance Director*

Kenneth James Morris *Deputy Chief Executive*

Julian David Smith *Staff and Training Director*

*Members of the Audit Committee of the Board

Secretary

F E P Chandler, fciis

Registered office

Strand House

10 New Fetter Lane

London EC4A 1AD

Auditors

Touche Ross & Co.

3 London Wall Buildings

London EC2M 5PH

Consulting accountants

Peat, Marwick, Mitchell & Co.

1 Puddle Dock, Blackfriars

London EC4V 3PD

Solicitors

Bircham & Co.

1 Dean Farrar Street

Westminster SW1H 0DY

Registrars

Baring Brothers & Co. Limited

Bourne House

34 Beckenham Road

Beckenham, Kent BR3 4TU

Financial calendar

Dividend and interest payments

Ordinary dividends

Interim announced mid November. Paid late January

Final proposed early April. Paid early July

Preference dividends

Paid end March, September

Debt and Loan stock interest

4½% Redeemable Debt stock. Paid early May.

November

8% Redeemable Debt stock

5½% Redeemable Loan stock

7½% Redeemable Loan stock

8% Redeemable Debt stock

5½% Redeemable Loan stock

7½% Redeemable Loan stock

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7½% Redeemable Loan stock

8% Redeemable Debt stock

5½% Redeemable Loan stock

7½% Redeemable Loan stock

8% Redeemable Debt stock

Results in brief W.H.Smith & Son (Holdings) Limited and Subsidiary Companies

Sales		1977/78	1976/77
		£000	£000
Trading profit	20,066	15,417	320
Share of losses of associated companies	538	19,528	15,097
Interest receivable/less payable	644	530	
Profit before taxation		20,172	15,627
Taxation	8,190	3,771	
Extraordinary item – profit	—	341	
Net profit	11,977	12,185	
Profit retained		10,100	10,518
Depreciation	3,092	2,733	
Capital expenditure	8,989	9,529	
Capital employed	79,087	69,934	
Per 50p ordinary share			
Ordinary dividends	2.195p	1.951p	
Interim paid 24 January 1978	0.7105p	0.618p	
Final proposed – payable 3 July 1978	1.489p	1.333p	
Earnings	14.1p	14.0p	
Dividend cover	6.43	7.37	
Asset value	85.4p	73.7p	



There is continuing debate on how a company can best communicate to an expanding audience with different points of view, but a common interest in success.

The annual report is an account of stewardship to shareholders but of interest to the financial community and prospective investors as well as to segments of the public at large.

The staff have their own interpretation in the form of a special report to them, a copy of which is enclosed. Copies of the Report and Accounts are available to them all.

During the year inflation moderated and then started to decline. Surprisingly there are those who seem to incline to the idea that there is something virtuous in a high single figure level. In the United Kingdom, for retailing as a whole, sales volume for the year was in fact some two per cent below that of 1976.

Taking into account the general recession being experienced in all the countries in which we trade our joint venture in the Netherlands. They are all analysed and commented upon in the pages which follow.

It is recognised that, like many retailers, our profit accrues unevenly during the year with a large proportion flowing through in the last quarter. There are additional factors present in the current year, some

financial, some trading, which are likely to accentuate this trend.

It might be thought that the prediction of a consumer-led boom in 1978 in this country would be a welcome prospect for all connected with retailing. We view this idea with reservation.

Most people's personal incomes have been under severe restraint in the face of fierce inflation and high rates of taxation. Inevitably this has led to a general decline in living standards. Families and individuals have a lot of fences to repair before they can contemplate a spending spree. Spending may well increase but if sales in terms of volume reach the level from which they have declined, this would represent a recovery but not a boom. Stability is a better state than the boom and bust cycles which have been engineered in the past by economic policy. So this mood of caution on the part of the public should be welcomed by everyone who has the long-term interests of the country and commerce in mind.

The Company is strong financially and of good reputation. In the past it has shown an ability to adapt to and profit from change. It will continue to do so.

There is a continuing spirit of co-operation and understanding between all levels of management and staff over the whole field of communications, consultation and participation. Not that we are paragons but we continue to enhance a long tradition of concern for all. Observation of the simple dictum of doing unto others as you would have them do unto you, might well

resolve matters more quickly and effectively than the thousands of seminars and how-to-do-it tracts on the subject.

After the Annual General Meeting, Mr G W Rowe and Mr H N Saunders are retiring.

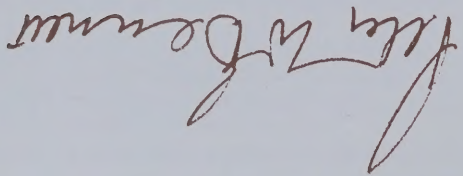
Mr Rowe, whose father preceded him and whose eldest son follows him in the business, has served in many positions in the firm over the past 50 years. He entered it in 1928 as a newsboy in the bookstalls and was appointed a director in 1960. He has always held the conviction that hard work never harmed anyone and demonstrated it throughout the whole of his career along with great skill and acumen.

Mr Saunders has served for 22 years as a non-executive director and contributed with sympathy and understanding to the evolution and growth of the business during that time.

To them and to all members of the staff who have retired during the year, we give our very sincere thanks and best wishes for happiness in the years to come.

To the men and women who remain and who have manned this business at home and abroad cheerfully, politely and effectively, the Board of Directors give them their unstinted praise and appreciation on behalf of themselves and shareholders.

As Chairman, I have many to thank. One is mindful of and thankful for the goodwill and help evidenced everywhere not least by your directors.



Peter W Bennett
Chairman

18 April 1978

The Directors present their Annual Report together with the Accounts of the Company for the year ended 28 January 1978.

Principal activities

The principal activities of the group are the wholesale and retail selling of newspapers, magazines, periodicals, books, stationery and records. In addition there are book clubs operated as a joint venture with Doubleday of New York and an advertising contractors business.

Financial review

Consolidated profit before taxation, for the year to 28 January 1978, amounted to £20,172,000 compared with £15,627,000 in the previous year. This profit is after providing £1,478,000 (1976/77 £1,226,000) for special pension fund contributions and crediting £1,010,000 (1976/77 £410,000) profit on the sale of properties. Sales to customers increased by 21.5% from £324,063,000 to £393,786,000.

Fixed assets Capital expenditure during the year amounted to £8,989,000 of which £6,906,000 was for retail operations.

In the Board's opinion the open market value of the group's freehold and leasehold property at 28 January 1978, on an existing use basis, was £53,985,000, compared with the book value at that date of £44,101,000. The book value includes £9,549,000 in respect of short-term leasehold properties, subject to rent reviews at five or seven year intervals, which are in the valuation at £1,937,000. In the Board's opinion the value of these properties to the continuing business is not less than book value.

The Board's opinion is based on a valuation of all the group's UK property interests carried out by its professional staff but a representative sample was valued by Messrs. Edward Erdman & Company. The valuation has not been incorporated into the Accounts. The Board intends to adopt the UK Accounting Standard on depreciation and will, therefore, be depreciating freehold properties with effect from 29 January 1978. It is estimated that the charge for 1978/79, based on the properties existing at 28 January 1978 will be £625,000.

Freehold and leasehold properties surplus to requirements at the year end had a book value of £1,077,000. At an Extraordinary General Meeting held on 28 November 1977, the shareholders approved that each of the existing authorised and issued 'A' ordinary shares of £1 each be divided into two 'A' ordinary shares of 50p each, and that each of the existing authorised and issued 'B' ordinary shares of 20p each be divided into two 'B' ordinary shares of 10p each. The authorised share capital was at the same time increased to £52,179,692 by the creation of an additional 55,000,000 'A' ordinary shares of 50p each and 48,500,000 'B' ordinary shares of 10p each.

In addition, following the above, a capitalisation issue was approved of three new 'A' ordinary shares of 50p each for every two 'A' ordinary shares of 50p each and three new 'B' ordinary shares of 10p each for every two 'B' ordinary shares of 10p each.

The current authorised and issued capital of the Company following these changes is shown as note 8 to the Accounts on page 16.

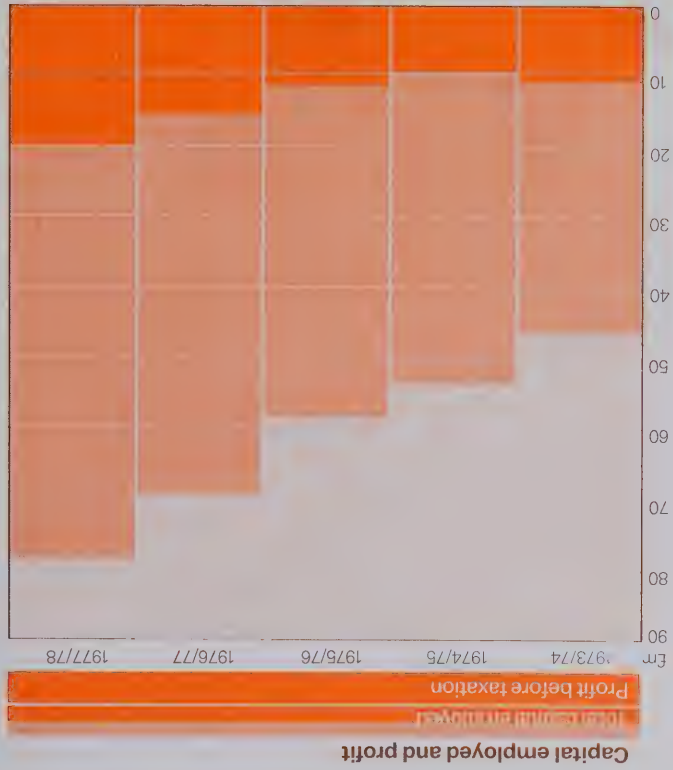
Options have been granted in connection with the employees SAYE share option scheme on a total of 985,060 'A' ordinary shares of 50p each of which 825,075 were granted in May 1976 at a price of 67.5p and 159,985 were granted in May 1977 at a price of 93.6p.

The options are not normally exercisable until five years from the date of the grant.

Redeemable Debenture stock
During the year £508,000 4½% Redeemable Debenture stock 1970/85 and £156,000 8% Redeemable Debenture stock 1987/92 was purchased for £326,000 and £106,000 respectively. The stock purchased will be used to satisfy future sinking fund requirements.

Deferred taxation
With effect from the financial year to 28 January 1978, deferred taxation has only been provided on short-term timing differences and no liability has been set up, in respect of UK companies, for the excess of taxation capital allowances over depreciation, stock appreciation relief and the contingent liability to Corporation Tax on Capital Gains arising from the re-valuation of freehold and leasehold properties.

This treatment is based on the recommendation contained in the Accounting Standards Committee



Exposure Draft 19, as the group's budgeted capital investment programme and stock holding in the foreseeable future indicate that it is unlikely that the tax will have to be paid.

The deferred taxation at 31 January 1976 in this respect of £9,776,000 has been credited to reserves at that date and the comparative figures for 1976/77 have been adjusted to give effect to the new accounting policy.

Inflation accounting

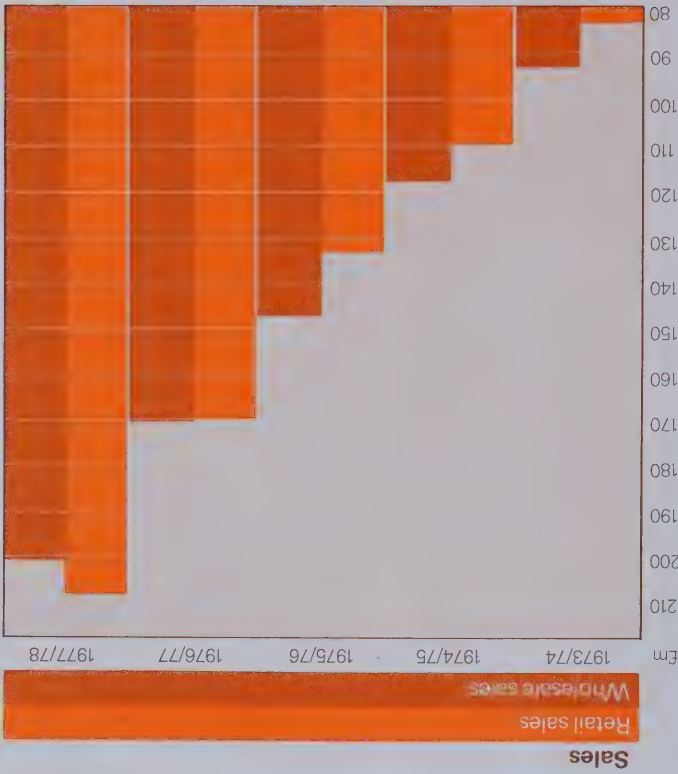
The Board believe that inflation seriously distorts financial results shown by accounts drawn up on the conventional historic cost basis and welcome the attempts that are in progress to produce a form of inflation accounting. In November 1977 the Accounting Standards Committee issued as an interim measure recommendations for inflation adjustments which proposed a depreciation adjustment, a cost of sales adjustment, and a gearing adjustment.

Accordingly a Current Cost Statement showing the effect of these adjustments has been included on page 20 together with notes explaining the methods used.

Pension schemes

The company and its UK subsidiaries operate pension schemes under which contributions are held in trustee-administered funds completely separate from the group's finances. These schemes are subjected to valuations by independent actuaries every three years and are fully funded. Further details of the main scheme, the WHS Pension Trust, are given on page 24.

The special pension fund contribution of £1,478,000 (1976/77 £1,226,000) was made to fund pension increases of 7½% to existing pensioners with effect from 1 April 1978.



Dividends

The interim dividend of 0.7105p per 50p ordinary share (adjusted for the split and scrip issue in November 1977) was paid on 24 January 1978. This included 0.0205p per 50p ordinary share additional dividend, in respect of the year 1976/77, consequent upon the reduction in the rate of Advance Corporation Tax to 34/66ths. The deferred final dividend of 0.205p per £1 ordinary share, which was declared at the Annual General Meeting, subject to the Advance Corporation Tax rate being reduced to 33/67ths, could not be paid.

The Directors now recommend the payment of a final dividend of 1.489p per 50p ordinary share on 3 July 1978 to members on the register at the close of business on 19 May 1978, making a total for the year of 2.195p per 50p ordinary share. Together with related tax credit, this represents a gross equivalent of 3.3326p per share (1977 2.97046p).

Review of trading operations

Retail group

At 28 January 1978, the Retail Group operated from 309 shops and 67 main bookstalls. Sales which were up 22.1% on last year benefited from Jubilee merchandise turnover in the early months. Christmas trading, although slow in starting, proved ultimately satisfactory. Retail shop selling space totals 1,351,000 square feet of which 64,000 square feet were added during the year. New branches were opened at Horsham, Mansfield, Kettering and Ramsgate and eight branches were resited. In addition, major improvements were made to seven main bookstalls.

The bookstall concession contracts in No 2 and No 3 Terminals at London Airport Heathrow were renewed for a further five years, albeit at higher rentals. New contracts for the gift shop concessions were obtained for five years in No 1 and No 2 Terminals at the same airport.

Retail selling space has expanded by 58% over the last five years and it has become necessary to plan an additional distribution centre to our existing one at Swindon. Contracts have been signed to lease a purpose-built distribution centre at Dunstable to handle the fast moving stock items. Construction has started on the building and it is expected to start operations in April 1979.

Bowes and Bowes, the group of city and university bookshops, produced good results. Further city centre bookshops are planned for the future.

Craftsmith, the speciality shops we have opened selling dress fabrics, knitting yarns and crafts, opened one additional shop in 1977/78, making five in total and three more are planned for the current year. Initial results encourage us to continue with this development.

Wholesale group

Wholesale sales increased by 18.7% over last year. Newspapers, magazines and periodicals which in recent years have seen a decline in volume sales recorded a small volume increase. Sales lost through industrial disputes exceeded £2,000,000 against £1,250,000 last year reflecting continuing problems, particularly in Fleet Street.

Improved contributions to profits are expected to result from the current re-organisation of the Book Wholesale business.

WHS Distributors, the book distribution division, increased its turnover by 62.3% to £9,206,000.

Book Club Associates

Book Club Associates had another good year. In February 1977 the net assets of the book club business of Purnell Book Services Limited were acquired for £587,000 and were integrated with the existing expanding operation.

Sales increased by 62% on 1976/77 and membership, including the Purnell Book Clubs, rose by 42.7%.

Advertising

W.H.S. Advertising Ltd which operates with its subsidiary companies an advertising contracting business had a successful year. The results, which include a full year's operation of Smiths & Masons Ltd, were profits before taxation of £142,000.

The Severn Smith group of provincial advertising agencies was sold as at 30 January 1977.

Overseas

W.H. Smith Canada Ltd expanded rapidly during the year and now operates from 50 shops (1977 39 shops). The depressed state of the Canadian economy and the fall in the value of the Canadian dollar affected the results; nevertheless turnover increased by 15.7% and profit before tax was £314,000 (1976/77 £357,000).

Sims, our joint company with the Elsevier Publishing Company of Amsterdam in the Netherlands, opened two further shops during the year and now operates from seven. The business is receiving the close attention of the partners as losses continue and sales levels are disappointing.

A new overseas subsidiary Mayflower Books Inc. has been formed in the United States of America for the distribution of books mainly of United Kingdom manufacture. The Company expects to start trading in July 1978.

Personnel

The average number of persons employed by the group in the United Kingdom each week during the year has been 19,759. The aggregate remuneration paid or payable to United Kingdom employees in respect of the year ended 28 January 1978 amounted to £38,341,000. A table showing additional details of staff employed world-wide is shown on page 25.

Measures to extend the existing machinery for participation and consultation within the group are being developed. These will enable staff and management at all levels to be consulted to a greater extent about matters which affect them at their place of work and will be in addition to established communications with Trade Unions and Staff Committees.

The Monopolies and Mergers Commission

The Director General of Fair Trading has referred to the Monopolies and Mergers Commission the matter of the possible existence of a monopoly situation in relation to the wholesale supply of national newspapers and periodicals. We have co-operated fully with the Commission in their inquiry and provided them with extensive information.

It is understood that the Commission have completed their inquiry and the report is with the Minister.

Directors

The names of the Directors are shown on page 2. Lord Margadale and Mr H H van Straubenzee retired following the Annual General Meeting on 27 May 1977 and Mr G W Rowe and Mr H N Saunders have notified the Board of their intention to retire after this year's Annual General Meeting on 25 May 1978.

Mr P Baring, Mr W G L Forwood, Viscount Hambleden and Mr W B I Jamieson retire by rotation and, being eligible, offer themselves for re-election.

Additional information

On pages 24 to 27 is further information which is required to be disclosed under the Companies Acts and which should be read as part of this report. The information includes or relates to the following:—

The WHS Pension Trust

Proportions of turnover and contribution to profit of principal activities

Particulars of exports

Charitable and political contributions

Staff—Numbers employed and their aggregate remuneration

Directors' interests in the Company's shares, debentures and unsecured loan stock

Contracts in which Directors have or have had material interests

The Company's shareholders

Substantial shareholdings

Auditors

Touche Ross & Co. have expressed their willingness to continue in office; a resolution will be proposed at the Annual General Meeting for their re-appointment as Auditors and authorising the Directors to fix the Auditors' remuneration.

By order of the Board

F. E. Chandler

F. E. Chandler, Secretary

18 April 1978

Sales		30 Jan 1977 to 28 Jan 1978	1 Feb 1976 to 29 Jan 1977
		£000	£000
Trading profit		20,066	15,417
Less: Share of losses of associated companies		538	320
		19,528	15,097
Interest receivable/less payable NOTE 1		644	530
Profit before taxation NOTE 2		20,172	15,627
Less: Taxation NOTE 3		8,190	3,771
		11,982	11,856
Less: Minority interests		5	12
		11,977	11,844
Profit after taxation			
Extraordinary item NOTE 4		—	341
Net profit		11,977	12,185
Less: Dividends NOTE 5		1,877	1,667
		10,100	10,518
Profit retained NOTE 9		10,100	10,518
Earnings per 50p ordinary share NOTE 6			
Before extraordinary item		14-1p	14-0p
After extraordinary item		14-1p	14-4p
Reserves			
Profit retained for the year		10,100	10,518
At beginning of year			
As previously reported		30,907	24,975
Prior year adjustment		14,492	9,776
As restated		45,399	34,751
Net gain/(loss) on conversion of overseas fixed assets and related long-term currency loans		(130)	130
Less: capitalisation of reserves NOTE 8		55,369	45,399
		25,386	—
At year end NOTE 9		29,983	45,399

Capital employed				
Total capital employed				
28 Jan 1978	29 Jan 1977	28 Jan 1978	29 Jan 1977	29 Jan 1977
£000	£000	£000	£000	£000
Capital of Holding Company NOTE 8	42,740	17,354	42,740	17,354
Reserves NOTE 9	29,983	45,399	1,773	10,829
Loans NOTE 10	6,320	7,145	5,406	6,070
Minority interests	44	36	—	—
Total capital employed				
79,087	69,934	49,919	34,253	

Use of capital				
Current assets				
Stock	33,051	29,429	—	—
Debtors	18,699	15,660	15	198
Amounts due by subsidiaries	—	—	3,354	140
Short term investments NOTE 11	19,651	14,300	130	12,763
Bank balances and cash	1,801	2,189	21	43
Total				
73,202	61,578	3,520	13,144	

Current liabilities				
Amounts owing to subsidiaries	—	—	527	—
Creditors	41,965	39,753	100	148
Tax currently payable NOTE 3	1,217	1,100	959	892
Corporation tax payable 1 Jan 1979	7,520	2,753	259	77
Dividends NOTE 5	1,265	1,133	1,265	1,133
Total				
51,967	44,739	2,583	2,777	
Net current assets				
21,235	16,839	937	10,367	

Medium term assets				
Deferred taxation NOTE 3	576	567	652	—
Fixed assets				
Properties, plant, etc NOTE 12	56,635	51,967	—	—
Associated companies	594	514	—	—
Unquoted trade investments	47	47	—	—
Interest in subsidiaries NOTE 13	—	—	48,330	23,886
Total assets employed				
79,087	69,934	49,919	34,253	

Peter W Bennett Chairman

W. Brian I. Jamieson Director

Statement of source and application of funds
W.H.Smith & Son (Holdings) Limited and Subsidiary Companies

Source of funds		Application of funds	
30 Jan 1977 to 28 Jan 1978	£000	1 Feb 1976 to 29 Jan 1977	£000
Profit before tax and extraordinary item	20,167	15,615	
less minority interests	—	341	
Extraordinary item	939	4,489	
Sales of property, plant, etc., at book value	21,106	20,445	
Adjustment for items not involving the movement of funds:			
Minority interest	8	13	
Depreciation	3,092	2,733	
Losses of associated companies	538	320	
Total generated from operations	24,744	23,511	
Application of funds			
Dividends paid	1,745	1,665	
Tax paid	3,315	5,078	
Purchase of fixed assets	8,989	9,529	
Investment in associated companies	618	378	
Debentures purchased at nominal value	664	79	
Increase in stocks	3,622	7,533	
Increase in debtors	3,039	3,007	
(Increase) in creditors	(2,211)	(8,629)	
	4,450	1,911	
(Decrease) in cash	(388)	(175)	
Increase in short term investments	5,351	5,146	
	4,963	4,971	
Total application of funds	24,744	23,511	

Report of the Auditors

To members of W.H.Smith & Son (Holdings) Limited

In our opinion the notes and accounts on pages 9 to 19, which have been prepared under the historical cost convention including the revaluation of certain properties, comply with the Companies Acts 1948 and 1967 and, so far as concerns members of the Company, give a true and fair view of the state of affairs at 28 January 1978 of the Company and of the Group and of the profit and source and application of funds of the Group for the year ended on that date.

Touche Ross & Co.
Chartered Accountants
3 London Wall Buildings
London EC2M 5PH
18 April 1978

A	Basis of accounts	The group accounts are prepared under the historical cost convention adjusted by the revaluation of properties in 1970.
B	Basis of consolidation	The consolidated profit and loss account and balance sheet includes the parent company, its subsidiaries and the group's share of profits or losses and reserves of associated companies.
C	Foreign currencies	The accounts of overseas subsidiary and associated companies have been converted into sterling at the rates of exchange current at the balance sheet date. Profits and losses arising on conversion, insofar as they relate to net current assets, have been included in trading profit. Profits and losses relating to fixed assets and related long term liabilities are normally dealt with through reserves but are included in trading profit insofar as they represent: deficits not covered by amounts held in reserves in respect of previous translations of those assets, or the recovery of deficits previously charged to trading profit.
D	Sales	These comprise sales to external customers and exclude value added tax and delivery expenses recovered.
E	Depreciation	Depreciation is not provided on freehold properties. However following the recommendation of the United Kingdom Accounting Standards Committee on depreciation it is the Board's intention to depreciate freehold property with effect from 29 January 1978. Leasehold properties short-term have less than 50 years to run from 28 January 1978. Leasehold properties are amortised over the period of the leases. Shop fronts and structures are depreciated over ten and five years respectively by equal instalments except when the lease is for a shorter period when they are written off over the period of the lease. Depreciation is provided by equal instalments over the anticipated lives of the assets at the following rates: Plant, machinery and equipment 12½% Motor vehicles and office appliances 20% Furniture, fixtures and fittings 10%
F	Goodwill	Goodwill is written off in the year of acquisition.
G	Research and development	Expenditure is written off to the profit and loss account in the year in which it is incurred.
H	Deferred taxation	Deferred taxation has been fully provided for on short-term timing differences. Following the issue by the Accounting Standards Committee of exposure draft 19 and contrary to company accounting policy prior to 1977/78, no amount has been set aside in respect of UK companies for: i The deferred liability arising from the excess of capital allowances over depreciation. ii Stock appreciation relief. iii The contingent liability to corporation tax on capital gains in the event of freehold and leasehold properties being sold at their revalued figure. This policy is based on the level of budgeted capital investment and stockholding in the foreseeable future. Figures for 1976/77 have been restated on a comparable basis.
I	Stock	Stock is stated at the lower of cost and net realisable value using the first in, first out method of valuation.
J	Pension funding	The company and its UK subsidiaries operate pension schemes under which contributions are held in trustee-administered funds completely separated from the group's finances. These schemes are subjected to triennial valuations by independent actuaries and are fully funded. Certain overseas companies operate their own pension schemes.
K	Unquoted trade investments	Unquoted trade investments are valued annually by the Directors.

1 Interest receivable less payable

1977/78		1976/77	
£000		£000	
Receivable:			
Bank deposits		1,039	
Certificates of tax deposits		—	
Government securities		9	
Less: Payable:			
4½% Redeemable Debenture stock 1970/85		52	
8% Redeemable Debenture stock 1987/92		143	
7¾% Redeemable Loan stock 1988/93		64	
5½% Redeemable Loan stock		114	
Bank overdrafts and loans		145	
436		518	
644		530	

2 Profit before taxation is stated after

a) Charging:			
Special pension fund contributions		1,478	
Depreciation		3,092	
Hire of plant and machinery		990	
Goodwill		402	
Rents		4,955	
Net loss / (gain) on foreign currency		234	
Loss on sale of subsidiary company		28	
Audit fees and expenses :			
Holding company		6	
Subsidiary companies		93	
88		99	
Holding company directors' emoluments :			
Fees		33	
Other emoluments including pension contributions		279	
Pensions and pension contributions relating to			
former directors		37	
326		349	
b) Crediting:			
Profit on sale of properties		1,010	
Rents receivable		317	
Profit on redemption of Debenture stock		232	
Income from unquoted investments		4	
410		4	

3

Taxation

	1977/78	1976/77
	£000	£000
Consolidated		

a) Profit and loss account:
The taxation charges comprise UK corporation tax at 52%.

Current	8,110	3,598
Deferred timing differences	33	(3)
Overseas taxation	8,143	3,595
	181	247
	8,324	3,842
Less: Double taxation relief	134	71
	8,190	3,771

Notes:

i Had the accounting policy H not been changed, the group taxation charge for the year would have been £10,065,000 (1976/77 £8,487,000).

ii The chargeable gain on the disposal of property has been deferred under Section 33 of the Finance Act 1965.

b) Balance sheet:
28 Jan 1978
Consolidated
29 Jan 1977
£000
28 Jan 1978
Holding Company
29 Jan 1977
£000

i Tax currently payable:	959	892
ACT payable on dividends of the year	959	892
Other	258	208
	1,217	1,100
Medium term asset:		
Deferred taxation:		
ACT on dividends	652	610
Equalisation of tax on accrued charges	(76)	(43)
and income	576	567
	652	652

Note:
A provision of £14,367,000 at 28 January 1978 would be required if deferred taxation were provided for capital allowances and stock appreciation relief for UK companies.

4

Extraordinary item

	1977/78	1976/77
	£000	£000
Consolidated		

Compensation for loss of property rights

341

Dividends

	1977/78	1976/77
Preference shares	£000	£000
'A' and 'B' ordinary shares:		
Interim 0.7105p per 50p share	601	523
Final 1.489p per 50p share	1,260	1,128

The interim ordinary dividend was paid on 24 January 1978 and the final ordinary dividend, if approved, will be paid on 3 July 1978.

Payable in 1978/79	1,265	1,133
Paid in 1977/78	1,877	1,667
	612	534
	1,861	1,651

Earnings per ordinary share

The calculation of earnings per share is based upon the following:

Earnings before extraordinary item	11,961	11,828
Earnings after extraordinary item	11,961	12,169
Share capital in issue after the capitalisation		
issue in November 1977	42,310	42,310
Earnings have been expressed in terms of a 50p 'A' ordinary share. The earnings per share for 1976/77 have been adjusted for the capitalisation issue and the share split.		

Emoluments of Directors and senior employees

Emoluments of the Chairman	19	34
Emoluments of the highest paid Director	34	—
Number of other Directors of the Holding Company whose emoluments were within the scale:		
£	No.	No.
0 — 2,500	2	7
2,501 — 5,000	6	2
5,001 — 7,500	—	3
7,501 — 10,000	1	1
10,001 — 12,500	2	1
12,501 — 15,000	2	1
15,001 — 17,500	1	1
17,501 — 20,000	1	1
20,001 — 22,500	2	1
22,501 — 25,000	1	1
25,001 — 27,500	2	1
27,501 — 30,000	—	1

Emoluments of other senior employees in the UK

£	No.	No.
10,001 — 12,500	52	24
12,501 — 15,000	15	7
15,001 — 17,500	4	1
17,501 — 20,000	3	—
*Net after tax £		
2,100	2	7
3,800	6	2
9,600	—	3
10,300	1	1
10,900	2	1
11,300	1	1
11,700	2	1
12,600	—	1

*The net after tax emoluments are based on the UK tax payable at the upper limit of each range at 1977/78 tax rates on the assumption that the recipient is married with no other allowances and has no other source of income.

8 Share capital			
28 Jan 1978			
Issued and fully paid	Authorised	Issued and fully paid	Authorised
£000	£000	£000	£000
169	169	169	169
169,072 4.9% Cumulative Preference shares of £1 each			
260,620 3.15% Cumulative Redeemable Preference shares of £1 each			
261	261	261	261
88,000,000 'A' ordinary shares of 50p each (1977 16,500,000 'A' ordinary shares of 10p each)			
44,000	16,500	35,349	16,500
77,500,000 'B' ordinary shares of 10p each (1977 14,500,000 'B' ordinary shares of 20p each)			
7,750	2,900	6,961	2,900
52,180	19,830	42,740	19,830
1977/78			
Movement in issued share capital:			
Issue of 42,418,233 fully paid 'A' ordinary shares of 50p			
21,209			
Issue of 41,765,625 fully paid 'B' ordinary shares of 10p			
4,177			
Transfer from reserves NOTE 9			
25,386			
1976/77			
Reserves			

Consolidated:			
At beginning of year	Realised	Unrealised	Total
£000	£000	£000	£000
30,777	130	30,907	24,975
(including £305,000 share premium account)			
Prior year adjustment—deferred taxation			
14,492	—	14,492	9,776
As restated			
45,269	130	45,399	34,751
Profit retained for the year			
10,100	—	10,100	10,518
Net gain/(loss) on conversion of overseas fixed assets and related long-term currency loans	—	(130)	130
Less: capitalisation of reserves NOTE 8			
25,386	—	25,386	45,399
(including £305,000 share premium account)			
At year end			
29,983	—	29,983	45,399

Holding Company:			
At beginning of year			
(including £305,000 share premium account)			
Dividend received out of the reserves of W.H.Smith & Son Ltd.			
15,159			
Profit retained for the year			
1,171			
27,159			
Less: capitalisation of reserves NOTE 8			
25,386			
(including £305,000 share premium account)			
At year end			
1,773			
10,829			

10 Loans

Long term:			
4½% Redeemable Debenture stock Secured 1970/85			
1,211	1,161	1,211	1,161
8% Redeemable Debenture stock Secured 1987/92			
1,789	1,633	1,789	1,633
7½% Redeemable Unsecured Loan stock 1988/93			
831	831	831	831
5½% Redeemable Unsecured Loan stock			
2,239	2,239	2,239	2,239
6,070	5,864	6,070	5,864
Less: 4½% Redeemable Debenture stock 1970/85 held for future sinking fund redemption			
—	458	—	458
Total long term			
6,070	5,406	6,070	5,406
Medium term:			
Various foreign currency loans			
—	914	1,075	—
Total loans			
6,070	6,320	7,145	5,406
The 4½% Debenture stock 1970/85 is redeemable at the Company's option prior to 1 May 1980 at £101, thereafter at par. In addition there is redemption by a sinking fund of £30,000 per annum which may purchase at or under par or by drawings at par. The 8% Debenture stock 1987/92 is redeemable at the Company's option after 6 January 1987 at par. In addition there is redemption by a sinking fund of £20,000 per annum which may purchase at or under par or by drawings at par. The 7½% Loan stock 1988/93 is redeemable at the Company's option after 6 July 1988 at par. The 5½% Loan stock is redeemable at the Company's option prior to 31 December 1984 at £105 or thereafter at par.			
Short term investments			
Bank deposits			
11,379	17,251	12,916	130
Certificates of tax deposit			
—	2,400	—	—
Short dated government securities			
1,384	—	1,384	—
12,763	19,651	14,300	130
Short dated government securities market value			
1,414	—	1,414	—

[illegible]

Interest in subsidiaries

Holding Company

Investment in W.H. Smith & Son Ltd:

The issued share capital at cost (£6,000,000) as increased by £9,000,000 in respect of reserves

Loan

Investment in other subsidiary companies:

Shares at cost

Loans

1,330

143
4,643

28 Jan 1978

29 Jan 1977 £000

0003

15,000

4,100

47,000

19,100

4,786

48,330

23,886

14 Principal subsidiary and associated companies

Activity	Name	Class of share	Interest %	Group incorporated and operating abroad	Country where
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Newsagents, booksellers and stationers	W.H.Smith & Son Limited	Ordinary	100		
	W.H.Smith Canada Limited	Common	98		Canada
	W.H.Smith & Son (Belgium) SA	Ordinary	100		Belgium
	W.H.Smith & Son SA	Ordinary	100		France
	Sims & Partners CV	Ordinary	50		Holland

Advertising contractors	W.H.S. Advertising Limited	Ordinary	100		
	Smiths & Masons Limited	Ordinary	100		

Road haulage contractors	W.H.S. Transport Limited	Ordinary	100		
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Holding companies	W.H.Smith & Son International Limited	Ordinary	100		
	W.H.Smith & Son Nederland BV	Ordinary	100		
	Hambleden Estates Limited	Ordinary	100		Holland
		Ordinary	100		

15 Contingent liabilities

	28 Jan 1978 £000	Consolidated 29 Jan 1977 £000	28 Jan 1978 £000	Holding Company 29 Jan 1977 £000	
The holding company has guaranteed the performance of certain contracts entered into by subsidiary companies	291	519	291	603	
The estimated additional group liabilities under guarantees given in the normal course of business	873	830	—	—	

16 Capital commitments

Future capital expenditure approved by the Directors and not provided for in these accounts is as follows :	1,497	666		
Contracts placed	6,618	2,109		
Contracts not placed	8,115	2,775		
Total capital commitments				

30 Jan 1977 to 28 Jan 1978	£000
393,786	

Trading profit as per historical cost accounts	20,066
Less: Share of losses of associated companies	538
Profit on sale of properties NOTE 2	1,010

1,548	
18,518	

Less: Adjustments:	
Depreciation NOTE 3	1,264
Cost of sales NOTE 4	3,305

4,569	
Operating profit	13,949
Interest receivable less payable	644

14,593	
Gearing adjustment NOTE 5	701

Adjusted profit before taxation	15,294
Taxation	8,190

Minority interests	7,104
Adjusted profit attributable to the shareholders	5
Dividends	1,877

Adjusted retained profit	5,222
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Notes to current cost statement

- 1 The statement has been prepared in accordance with the interim recommendation by the Accounting Standards Committee.
- 2 Profit on the sale of properties has been deducted from trading profits as it would not normally arise on a current cost basis.
- 3 The depreciation adjustment is the difference between depreciation based on current replacement cost of properties, plant, etc and the depreciation charge in the historical cost accounts. Following the accounting

- 4 The cost of sales adjustment has been computed using the averaging method, based on appropriate indices recommended by the Central Statistical Office.
- 5 The gearing adjustment has been based upon the closing balance sheet method.

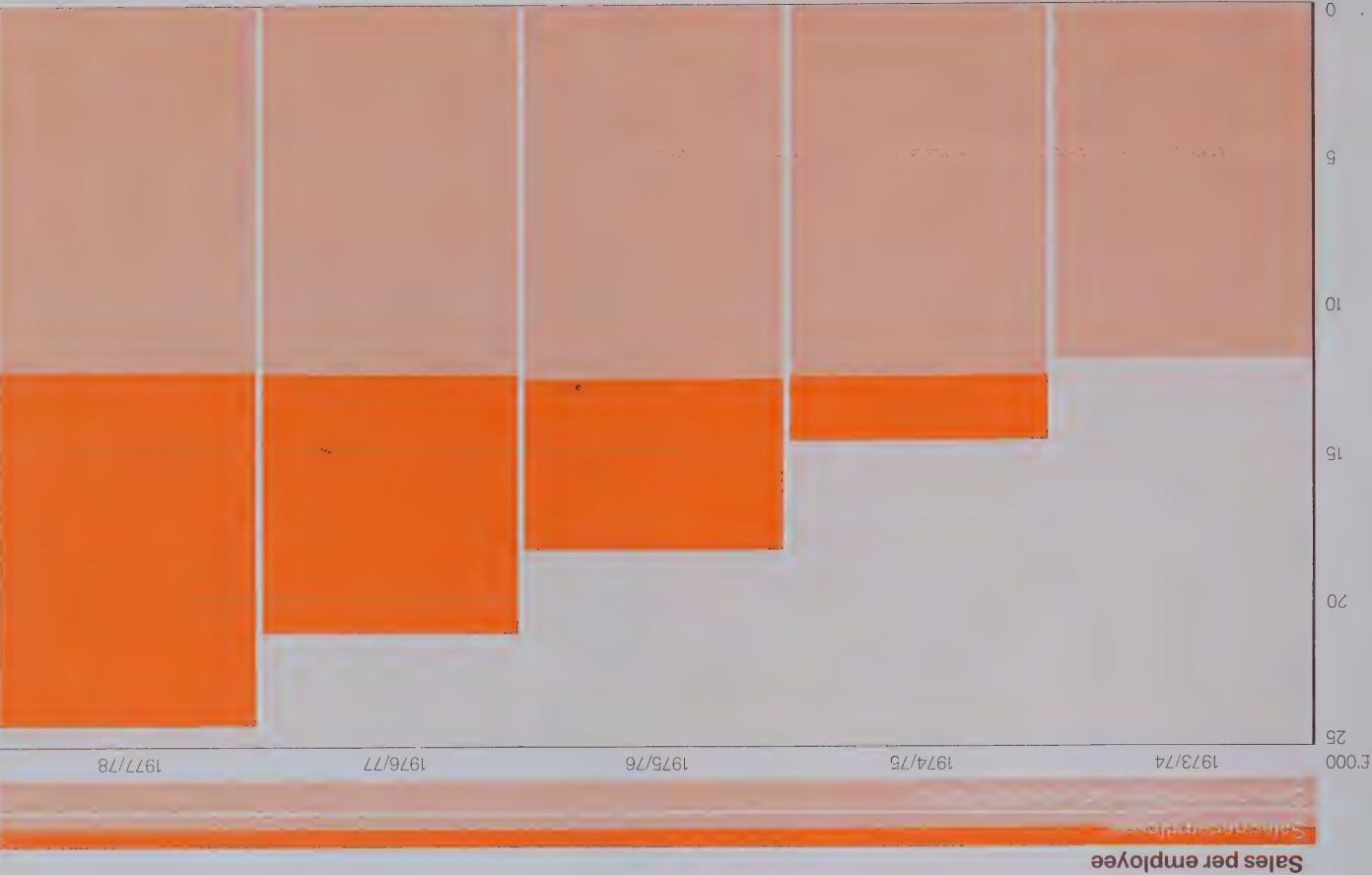
To members of W.H.Smith & Son (Holdings) Limited
In our opinion the above current cost statement, together with the notes thereon, for the year ended 28 January 1978 has been properly prepared, in accordance with the methods set out in the notes, to give the information required by the Accounting Standards Committee's interim recommendation on inflation accounting of November 1977.

Report of the Auditors

Touche Ross & Co.
Chartered Accountants
3 London Wall Buildings
London EC2M 6PH
18 April 1978
20

Value added statement
W.H.Smith & Son (Holdings) Limited and Subsidiary Companies

	30 Jan 1977 to 28 Jan 1978 £000	1 Feb 1976 to 29 Jan 1977 £000
Sales	393,786	324,063
Cost of goods sold and services	321,794	263,260
Value added	71,992	60,803
Applied in the following way :		
To pay employees:		
Salaries, wages and benefits	48,332	41,648
To pay providers of capital:		
Interest on loans	396	454
Dividends to shareholders	1,877	1,667
Minority interests	5	12
Payable to governments:		
Corporation tax and overseas taxation	8,190	3,771
To provide for maintenance and additions to assets:		
Depreciation	3,092	2,733
Profit retained	10,100	10,518
	13,192	13,251
	71,992	60,803



Group turnover and profits		1977/78	1976/77	1975/76	1974/75	1973/74
Turnover (outside the group)		393,786	324,063	265,776	217,266	167,401
Profits						
Trading profit		20,066	15,417	11,723	9,295	10,109
Share of losses of associated companies		(538)	(320)	(367)	(174)	—
Interest receivable/less payable		19,528	15,097	11,356	9,121	10,109
		644	530	(105)	145	670
Profit before taxation		20,172	15,627	11,251	9,266	10,779
Taxation		(8,190)	(3,771)	(5,522)	(629)	(3,356)
Outside shareholders' interest		(5)	(12)	(10)	(2)	(12)
Profit after taxation		11,977	11,844	5,719	8,635	7,411
Extraordinary item		—	341	—	—	—
Net profit		11,977	12,185	5,719	8,635	7,411
Dividends						
Preference		(16)	(16)	(16)	(16)	(15)
Ordinary		(1,861)	(1,651)	(1,497)	(1,395)	(1,256)
Retained		10,100	10,518	4,206	7,224	6,140
Summary of balance sheets						
Fixed assets		57,276	52,528	46,049	39,105	33,608
Deferred proceeds from sale of property		—	—	—	3,780	3,780
Net current assets		21,235	16,839	12,427	10,283	8,468
Medium term assets		576	567	509	934	719
Total assets employed		79,087	69,934	58,985	54,102	46,575
Financed by						
Ordinary capital		42,310	16,924	16,924	16,807	16,740
Reserves		29,983	45,399	34,751	30,256	23,016
Ordinary shareholders' interest		72,293	62,323	51,675	47,063	39,756
Preference capital		430	430	430	430	430
Loans		6,320	7,145	6,857	6,591	6,367
Outside shareholders' interest		44	36	23	18	22
Total capital employed		79,087	69,934	58,985	54,102	46,575

Statistics

Per 50p ordinary share

Asset value	85.4p	73.7p	61.1p	55.6p	47.0p
Earnings	14.1p	14.0p	6.8p	10.2p	8.8p
Earnings if deferred tax provided	11.9p	8.4p	5.7p	4.9p	6.7p
Dividend		2.195p	1.951p	1.773p	1.662p
Actual		3.332p	2.970p	2.728p	2.205p
Gross equivalent		6.43	7.37	3.81	6.18
Dividend cover		26.0%	23.0%	19.8%	17.9%
Return on capital employed					24.0%

Notes

! Figures have been restated on a comparable basis

!! Statistics have been expressed in terms of a 50p 'A'

ordinary share in issue at 28 January 1978

!!! The return on capital employed is based on capital employed at the end of the year. Profit is before taxation, debenture and loan interest.

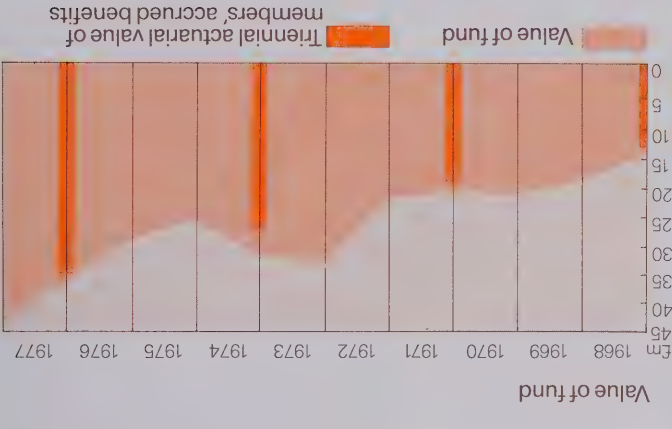
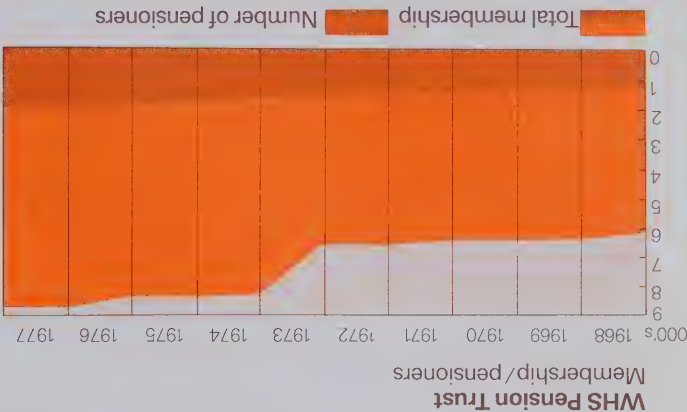


The WHS Pension Trust

A W. H. Smith pension fund was started in 1894: the individual Trustees were Directors of the Company with a Committee of Management from the staff. It has been decided to change the structure: the individual Trustees have retired and have been replaced from 1 April 1978 by a Corporate Trustee Company known as W. H. Smith Pension Trustees Ltd. A Committee of Management from the staff, representing different divisions of the business will continue. This Committee elects three members as Directors of the Corporate Trustee Company. In addition, on the Board are a further three Directors and the Chairman appointed by W. H. Smith & Son Limited, together with the Secretary.

The Board of W. H. Smith Pension Trustees Ltd is responsible for the investment decisions of the WHS Pension Trust, which is currently valued at over £50 million. A special investment committee invests the trust's monies and manages the investment portfolio. The performance of the fund will continue to be monitored and compared with the investment performance of other leading company pension funds.

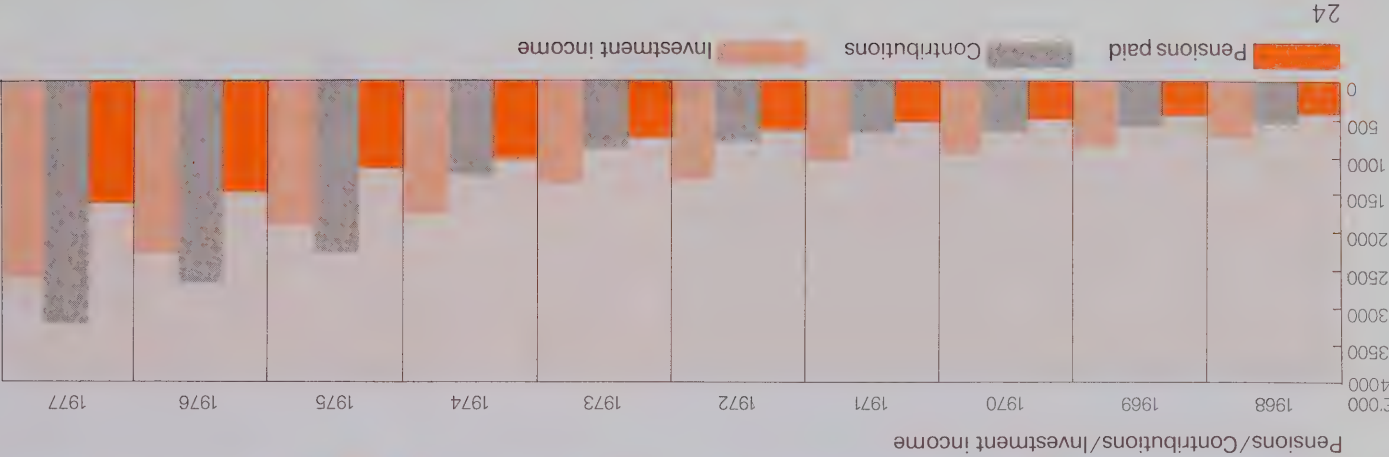
With effect from April 1978 the Company is participating in the Government's Earnings Related Pension Scheme. Staff do not have to contribute personally to the Pension Trust and the Company pay the total contribution. The basic plan of providing a pension of at least two-thirds retiring salary from the State and the Pension Trust after 40 years membership will remain, though over the years the proportion coming from the State will gradually increase as the Earnings Related Pension Scheme



matures. All full time staff from the age of 20 are now members of the Pension Trust; previously membership had been voluntary for women below 30 years of age. Pensions payable by the Trust are related to earnings in the period immediately before retirement and high inflation has meant that these earnings are considerably greater than in the earlier years of employment. This means that the Trust is largely dependent on the prosperity of companies in which the funds are invested and the ability of those companies to earn higher profits and pay higher dividends.

Each three years a valuation of the fund is made by actuaries who assess whether the existing assets, future contributions and future investment income are sufficient to meet the pension liabilities. The last valuation as of 31 March 1976 disclosed a small surplus despite an increase in average salaries and wages by 60% in the three year valuation period. This surplus was not sufficient to increase the pensions of existing pensioners and the Company has therefore made special funding contributions.

The charts below show the record of the WHS Pension Trust for the ten years to 31 March 1977. They show the increase in membership from 6,226 in 1967 to 8,904 in 1977, the increase in pensioners from 1,211 in 1967 to 2,062 in 1977 and the increase in the value of the fund from £14.4 million to £43.9 million over the same period. It is interesting to see that investment income more than covers the cost of benefits each year and that therefore the fund is in a position to invest all the contributions it receives for the future.



Proportion of turnover and contribution to profit of principal activities

Principal activities	Proportion of total turnover £000	Capital employed £000	Contribution to profit before taxation %
Newsagents, booksellers and stationers—			
Wholesaling	202,498	48.5	99.2
Retailing	208,829	50.0	
Road haulage contracting	2,427	0.6	0.1
Advertising contracting	3,857	0.9	0.7
Less: Duplicated turnover	*23,825		
	417,611		
	393,786	100.0	20,172
	79,087	100.0	100.0

*The wholesaling figure includes supplies to group retail outlets.

Particulars of exports

The value of goods exported by the group from the United Kingdom during the year was £1,528,000.

Charitable and political contributions

Charitable contributions during the year totalled £53,000. There were no political contributions.

Staff

The average number of persons employed by the group in the United Kingdom each week during the year has been 19,759. The aggregate remuneration paid or payable to United Kingdom employees in respect of the year ended 28 January 1978 amounted to £38,341,000.

United Kingdom	Total	Male	Female	Retail- ing	Whole- saling	Other
%						
Full time	11,623	5,677	5,946	54.9	28.8	16.3
8-29 hours per week	7,776	1,235	6,541	90.7	8.5	0.8
Less than 8 hours per week	360	115	245	81.1	18.3	0.6
	19,759	7,027	12,732	69.5	20.6	9.9
Europe	86	25	61	100.0	—	—
Canada	447	72	375	81.6	5.0	13.4
	20,292	7,124	13,168	69.9	20.1	10.0

Directors' interests in shares, debentures and unsecured loan stock

The interests of each Director, as recorded in the Company's register of Directors' share interests as at 28 January 1978 are shown below. The figures shown in orange are the holdings at 29 January 1977 multiplied by five so as to be comparable. The figures in brackets show trust holdings where a Director or his family are beneficiaries and he or other Directors are trustees: these amounts are therefore also included in the trustee holdings.

Beneficially		'A' ordinary shares		'B' ordinary shares		Other holdings *	
28 Jan 78	29 Jan 77	28 Jan 78	29 Jan 77	28 Jan 78	29 Jan 77	28 Jan 78	29 Jan 77
D A Acland	730	730	172,500	172,500	—	—	—
P H Bagnall	315	315	50,000	50,000	—	—	—
P Baring	1,020	1,020	—	—	—	—	—
P W Bennett	4,120	3,785	238,010	325,510	—	—	—
M D Field	210	210	21,250	25,000	—	—	—
W G L Forwood	5,000	5,000	—	—	—	—	—
Viscount Hambleden	—	—	2,409,155	3,208,825	—	—	—
S M Hornby	7,000	7,000	655,620	655,620	—	—	—
W B I Jamieson	210	210	50,000	50,000	—	—	—
K J Morris	1,290	1,290	113,925	113,925	—	—	—
Sir Humphrey P T Prideaux	1,910	1,910	—	—	—	—	—
G W Rowe	—	1,575	300,000	372,050	—	—	—
H N Saunders	—	—	—	—	100	(a)	100
J D Smith	465	465	110,000	110,000	—	—	—
As trustees							
P W Bennett, D A Acland	—	—	377,605	377,605	—	—	20,000 (b)
K J Morris, S M Hornby	—	—	—	—	—	—	—
P H Bagnall, M D Field	—	—	—	—	—	—	—
J D Smith and W B I Jamieson	6,500	6,500	9,725	9,725	3,738 (b)	3,738 (b)	3,738 (b)
D A Acland	—	—	1,237,550	1,245,050	—	—	—
W G L Forwood	408,535	144,880	27,301,965	28,824,735	2,533 (c)	2,533 (c)	2,533 (c)
Viscount Hambleden	80,300	83,250	—	—	6,000 (b)	13,502 (b)	—
S M Hornby	8,845	33,415	83,780	108,280	—	—	2,811 (c)
J D Smith	—	—	—	—	—	—	—

* (a) 3.15% (formerly 4½%) Cumulative Redeemable Preference shares
(b) 4½% Redeemable Debenture stock 1970/85
(c) 7½% Redeemable Unsecured Loan stock 1988/93

Between 29 January and 5 April 1978 the Company has been notified that Viscount Hambleden's interests as a trustee have been reduced by 480 'A' ordinary shares and 20,335 'B' ordinary shares.

Directors' interests in shares, debentures, and unsecured loan stock *continued*
The SAYE share option scheme, which was approved at the Extraordinary General Meeting held on 11 February 1976 gives to certain Directors the opportunity to acquire a benefit in the form of an option to subscribe for 'A' ordinary shares of the Company. Mr D A Acland has an option to purchase 2,190 shares at 67.5p in 1981.

Contracts in which the Directors have or have had material interests
None of the Directors had a beneficial interest in any contract to which the parent company or a subsidiary was a party during the financial year.

The Company's shareholders

An analysis at 28 January 1978 showed the spread of ordinary shareholdings to be :

Holder	Shares 'A'	%	Shares 'B'	%	Number of shareholdings
Banks and nominees	23,503,470	33.25	5,963,689	8.57	188
Insurance companies	16,307,935	23.07	1,459,775	2.10	63
Investment trusts	3,805,645	5.38	629,481	0.90	51
Pension funds	6,602,094	9.34	6,156,515	8.84	71
Charities and local authorities	2,360,720	3.34	549,020	0.79	43
Limited companies	1,027,490	1.45	416,510	0.60	87
Private holders	17,089,701	24.17	54,434,385	78.20	6,732
	70,697,055	100.00	69,609,375	100.00	7,235
					3,098

Substantial shareholdings

Details of Directors' shareholdings are shown on page 26.

Details of other shareholdings which at 5 April 1978

amounted to 5% or more of the total number of

issued 'A' ordinary shares or 'B' ordinary shares and of

which notification has been received by the

Company are :—

Name	Class of share	Beneficially	As a trustee	Number of shares held	Percentage of class
The Prudential Assurance Group	A	5,638,699	—	5,638,699	7.97
G J Chandler	B	15,000	5,715,000	5,730,000	8.23
M C St J Hornby	B	513,750	22,565,310	23,079,060	33.15
The Hon P R Smith	B	3,387,775	187,500	3,575,275	5.14
Sir Charles H W Troughton	B	37,500	5,407,125	5,444,625	7.82
The WHS Pension Trust	B	5,000,000	—	5,000,000	7.18
J H Wise	B	—	5,935,025	5,935,025	8.53

Notes :

i Held jointly with J H Wise.

ii Held jointly with Viscount Hambleden — see page 26.

iii 2,392,325 held jointly with Viscount Hambleden and 1,237,550 held jointly with

W G L Forwood — see page 26.

iv 5,715,000 held jointly with G J Chandler and 187,500 held jointly with the Hon.

P R Smith.

The Company is not a close company.

Notice is hereby given that the Twenty-ninth Annual General Meeting of W.H.Smith & Son (Holdings) Limited will be held at the Conference and Banqueting Centre of the London International Press Centre, 76 Shoe Lane, London EC4A 3UB (the entrance to which is in New Street Square at the rear of the main building) on Thursday 25 May 1978 at 14.30 for the following purposes:

To receive and adopt the Directors' report and statement of accounts for the year ended 28 January 1978 and the Auditors' report thereon (Resolution 1)

To declare a final dividend (Resolution 2)

To elect Directors

The following Directors will be proposed for re-election in accordance with Article 113

P Baring (Resolution 3a)

W G L Forwood (Resolution 3b)

Viscount Hambleden (Resolution 3c)

W B I Jamieson (Resolution 3d)

To appoint the Auditors (Resolution 4)

To authorise the Board of Directors to fix the remuneration of the Auditors (Resolution 5)

To transact any other ordinary business

Strand House
10 New Fetter Lane
London EC4A 1AD
28 April 1978

By order of the Board
F F P Chandler
Secretary

Notes

A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend, and on a poll, to vote instead of him, and a proxy need not be a member. Holders of Preference shares, Debenture stock and Loan stock are not entitled to attend and vote at the Annual General Meeting unless they also hold ordinary shares.

The following documents will be available at the registered office of the Company on any weekday (except Saturday) during normal business hours and at the London International Press Centre for a period of fifteen minutes prior to the Annual General Meeting and during the meeting:

a) A statement of all transactions of each Director and of his family interests in each class of the share capital and debentures of the Company.

b) Copies of contracts of service of the Directors.



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